


AR10

ANNUAL REPORT



1975



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Directors

J. S. DEACON
S. E. EDWARDS, Q.C.
A. GOLD
WM. W. LAIRD, Q.C.
E. LAWRENCE

Toronto: 866-5360

Officers

~~A. GOLD,~~ *Edward Lawrence*
PRESIDENT

WM. W. LAIRD, Q.C.,
EXECUTIVE VICE PRESIDENT

*Pres.
Aug. 76*

L. R. DOBBIN,
VICE PRESIDENT & GENERAL MANAGER

S. E. EDWARDS, Q.C.,
SECRETARY

Edm. controls

Head Office and Plant

CAMBRIDGE, Ontario

Administrative Office and Plant

CORNWALL, Ontario

Bankers

Royal Bank of Canada

Solicitors

Fraser & Beatty

Transfer Agents and Registrars

National Trust Company,
Toronto

Auditors

Thorne Riddell & Co.
Chartered Accountants, Toronto

Annual Meeting

June 7, 1976 — 11:00 a.m.
Administrative Office,
Cornwall, Ontario

Report of the directors

TO THE SHAREHOLDERS

On behalf of the Board of Directors I submit the annual report for the year ended December 31st, 1975, along with financial statements and the report of the auditors.

FINANCIAL HIGHLIGHTS

	1975	1974
Sales & Commission	\$5,790,000	\$5,758,000
Pounds Shipped	7,429,000	5,128,000
Profit (Loss)	\$ (88,000)	\$ 187,000
Cash Flow from Operations	\$ 237,000	\$ 524,000
Long Term Debt	\$4,021,000	\$ 225,000
Working Capital	\$ 310,000	\$ 302,000
Working Capital Ratio	1.15:1	1.29:1
Earnings (Loss) per Common Share	\$ (.87)	\$.75
Deferred Charges	\$ 693,000	\$ 2,000

SALES AND REVENUE

Overall revenue was approximately the same as 1974. Volume in pounds was up 45% largely in polyester on a commission basis through the Cornwall Plant. Earnings suffered though, due to lower nylon sales and narrow margins because of poor market conditions in the latter half of the year.

Start-up costs at Cornwall were appreciably higher than anticipated.

BALANCE SHEET

The Balance Sheet reflects the relatively substantial investments in the Company's new texturing plant in Cornwall.

The capital outlay for machinery and equipment was within budget, however, there were problems getting full production underway. \$569,500 of pre-production costs have been deferred to be amortized over the next three years of operation.

MARKET OUTLOOK

The market for textured polyester has been severely depressed over the past three months, however, it is expected to turn around in the second quarter. Present imports mainly from the United States, at prices below production costs, have compounded the market problems of the Canadian market. Despite the uncertainty of the present situation, the outlook for the long term future of polyester is in our opinion, strong.

CAMBRIDGE PLANT

Under present conditions in the industry, particularly as it applies to nylon, this operation is no longer a viable one, nor can we see a reasonable profitable outlook.

Therefore, it has been decided to phase out this operation and concentrate our efforts in Cornwall to meet the growing polyester market.

STAFF

We wish to express our appreciation for the contribution made by all employees during a very difficult year.

A. GOLD, President

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF RIVERSIDE YARNS LIMITED

We have examined the balance sheet of Riverside Yarns Limited as at December 31, 1975 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cambridge, Ontario
March 11, 1976

THORNE RIDDELL & CO.
Chartered Accountants

Riverside Yarns Limited

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1975

	1975	1974
Sales and commission revenue	\$5,790,697	\$5,758,377
Cost of goods sold	5,307,819	4,963,821
Gross profit	482,878	794,556
Selling and administrative expenses	552,356	415,641
Interest on long-term debt	71,245	62,500
Financing charges amortized	1,035	2,033
	624,636	480,174
Earnings (loss) before income taxes	(141,758)	314,382
Income taxes		
Current (recoverable)	(86,154)	92,885
Deferred	32,348	34,452
	(53,806)	127,337
NET EARNINGS (LOSS)	\$ (87,952)	\$ 187,045
EARNINGS (LOSS) PER COMMON SHARE (note 8)	(\$.87)	\$.75

STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1975

	1975	1974
BALANCE AT BEGINNING OF YEAR	\$ 763,326	\$ 621,281
Net earnings (loss)	(87,952)	187,045
	675,374	808,326
Dividends on Class A shares	60,000	45,000
BALANCE AT END OF YEAR	\$ 615,374	\$ 763,326

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1975

	1975	1974
WORKING CAPITAL DERIVED FROM		
Operations		
Net earnings (loss)	\$ (87,952)	\$ 187,045
Items not involving working capital		
Depreciation and amortization	292,908	302,472
Deferred income taxes	32,348	34,452
	<hr/>	<hr/>
	237,304	523,969
Proceeds from long-term debt	4,250,000	
	<hr/>	<hr/>
	4,487,304	523,969
	<hr/>	<hr/>
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	3,272,258	399,161
Principal on long-term debt paid or		
included in current liabilities	454,280	199,640
Deferred charges	692,611	
Dividends on Class A shares	60,000	45,000
	<hr/>	<hr/>
	4,479,149	643,801
	<hr/>	<hr/>
INCREASE (DECREASE) IN WORKING CAPITAL	8,155	(119,832)
WORKING CAPITAL AT BEGINNING OF YEAR	302,193	422,025
	<hr/>	<hr/>
WORKING CAPITAL AT END OF YEAR	\$ 310,348	\$ 302,193
	<hr/>	<hr/>

Riverside Yarns Limited

(Incorporated under the laws of Ontario)

BALANCE SHEET AS AT DECEMBER 31, 1975

ASSETS

CURRENT ASSETS	1975	1974
Cash		\$ 75,039
Income taxes recoverable	\$ 91,809	
Income taxes under appeal (note 2)	25,200	
Accounts receivable	653,895	514,078
Advances receivable on long-term debt	469,500	
Inventories (note 3)	876,142	483,504
Prepaid expenses	318,539	148,426
	<u>2,435,085</u>	<u>1,221,047</u>
FIXED ASSETS (note 4)		
Land, buildings, machinery and equipment	6,537,516	3,265,258
Less accumulated depreciation	2,415,378	2,123,505
	<u>4,122,138</u>	<u>1,141,753</u>
DEFERRED CHARGES		
Financing	123,888	1,812
Pre-production	569,500	
	<u>693,388</u>	<u>1,812</u>
	<u>\$7,250,611</u>	<u>\$2,364,612</u>

LIABILITIES

CURRENT LIABILITIES		
Bank advances, secured by inventories and book debts	\$ 297,879	
Accounts payable and accrued liabilities	1,222,476	\$ 524,976
Income and other taxes payable	130,932	179,238
Dividend payable	15,000	15,000
Principal due within one year on long-term debt	458,450	199,640
	<u>2,124,737</u>	<u>918,854</u>
LONG-TERM DEBT (note 5)	<u>4,020,600</u>	<u>224,880</u>
DEFERRED INCOME TAXES	<u>131,900</u>	<u>99,552</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6)		
Authorized		
120,000 Class A \$.50 cumulative convertible voting shares without par value		
490,000 Common shares without par value		
Issued		
120,000 Class A shares }	358,000	358,000
170,000 Common shares }		
RETAINED EARNINGS	<u>615,374</u>	<u>763,326</u>
	<u>973,374</u>	<u>1,121,326</u>
	<u>\$7,250,611</u>	<u>\$2,364,612</u>
COMMITMENT (note 7)		

J. S. DEACON, Director

Approved by the Board

E. LAWRENCE, Director

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1975

1. ACCOUNTING POLICIES

(a) Inventories

Raw materials are valued at lower of cost and replacement cost.
 Work in process and finished goods are valued at lower of cost and net realizable value.

(b) Fixed assets

Fixed assets are stated at cost. Depreciation is provided over the estimated number of years in which the asset can economically contribute to earnings using the following rates and methods:

Buildings	5%	declining balance
Machinery and equipment		
Additions prior to 1968	20%	declining balance
1968 and subsequent additions mainly	20%	straight line

When fixed assets are disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income.

(c) Deferred financing charges

Financing expenses are amortized on the straight line basis over the repayment period of the loan agreements to which they relate.

(d) Deferred pre-production charges

Commercial production volumes were achieved in the new Cornwall plant late in 1975. Certain pre-production period costs and production efficiency costs incurred prior to this date have been deferred and will be amortized equally over the next three years of operations.

(e) Income taxes

Deferred income taxes arise from claiming depreciation and financial expenses for tax purposes in amounts differing from amounts recorded in the accounts.

2. INCOME TAXES UNDER APPEAL

During the year the company was reassessed for additional income taxes with respect to 1973. The company has appealed the reassessments.

3. INVENTORIES

	1975	1974
Raw materials	\$216,001	\$120,880
Work in process	174,953	82,839
Finished goods	485,188	279,785
	<u>\$876,142</u>	<u>\$483,504</u>

4. FIXED ASSETS

	1975		1974	
	Asset value	Accumulated depreciation	Net	Net
Land	\$ 6,600		\$ 6,600	\$ 6,600
Buildings	393,648	\$ 286,546	107,102	112,701
Machinery and Equipment	6,137,268	2,128,832	4,008,436	1,022,452
	<u>\$6,537,516</u>	<u>\$2,415,378</u>	<u>\$4,122,138</u>	<u>\$1,141,753</u>

Riverside Yarns Limited

5. LONG-TERM DEBT

	1975	1974
9.4% Mortgage loan, maturing August 23, 1975		\$ 53,600
12% Mortgage bond, maturing June 15, 1976	\$ 29,050	74,920
12% Mortgage loan, maturing January 23, 1978	200,000	296,000
8% Debenture, non-interest bearing to December 15, 1979, maturing December 15, 1982	1,000,000	
10½% Redeemable subordinated debentures, maturing October 31, 1980	750,000	
14¾% Debenture, maturing April 15, 1980	2,500,000	
	<hr/>	<hr/>
	4,479,050	424,520
Less principal included in current liabilities	458,450	199,640
	<hr/>	<hr/>
	\$4,020,600	\$ 224,880

The 10½% redeemable subordinated debentures are unsecured. The debenture holders can require prepayment of \$500 of principal for each 250 share purchase warrants exercised (see note 6).

The balance of the debt instruments are variously secured by the company's fixed assets and a floating charge on all its assets and undertakings.

Under the terms of certain of these debt instruments the company has agreed to certain regulation of corporate activities including the following:

- (a) Maintenance of working capital (\$650,000 at December 31, 1975)
- (b) Dividends
- (c) alterations to share capital
- (d) redemption of the 10½% redeemable subordinated debentures

Principal due within each of the next five years is as follows:

1976	\$ 458,450
1977	596,100
1978	508,100
1979	500,100
1980	1,557,654

Under certain circumstances accelerated payment of the 8% debenture may be required.

6. CAPITAL STOCK

By articles of amendment dated June 20, 1975 the authorized capital of the company was increased by the creation of an additional 200,000 common shares.

The Class A shares are convertible into common shares on the basis of one common share for each two Class A shares converted.

Share purchase warrants issued with the 10½% redeemable subordinated debentures entitle the holders thereof to purchase in the aggregate 187,500 common shares at a price of \$2.00 per share up to October 31, 1980.

Dividends on Class A shares are in arrears at December 31, 1975 in the amount of \$2.125 per share totalling \$255,000.

7. COMMITMENT

The company rents its Cornwall land and building under a thirty year lease agreement effective September 1, 1975 at an annual rent of \$399,298.

8. EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share have been calculated after providing for dividends for the year on Class A shares.
Conversion of the Class A shares and exercise of share purchase warrants would be non-dilutive in 1975.

9. RESTRICTIONS ON DIVIDENDS

The company is subject to the Anti-Inflation Act as it relates to the restraints on dividends.

10. COMPARATIVE FIGURES

Certain figures for 1974 have been reclassified in order to present them in a form comparable with those for 1975.

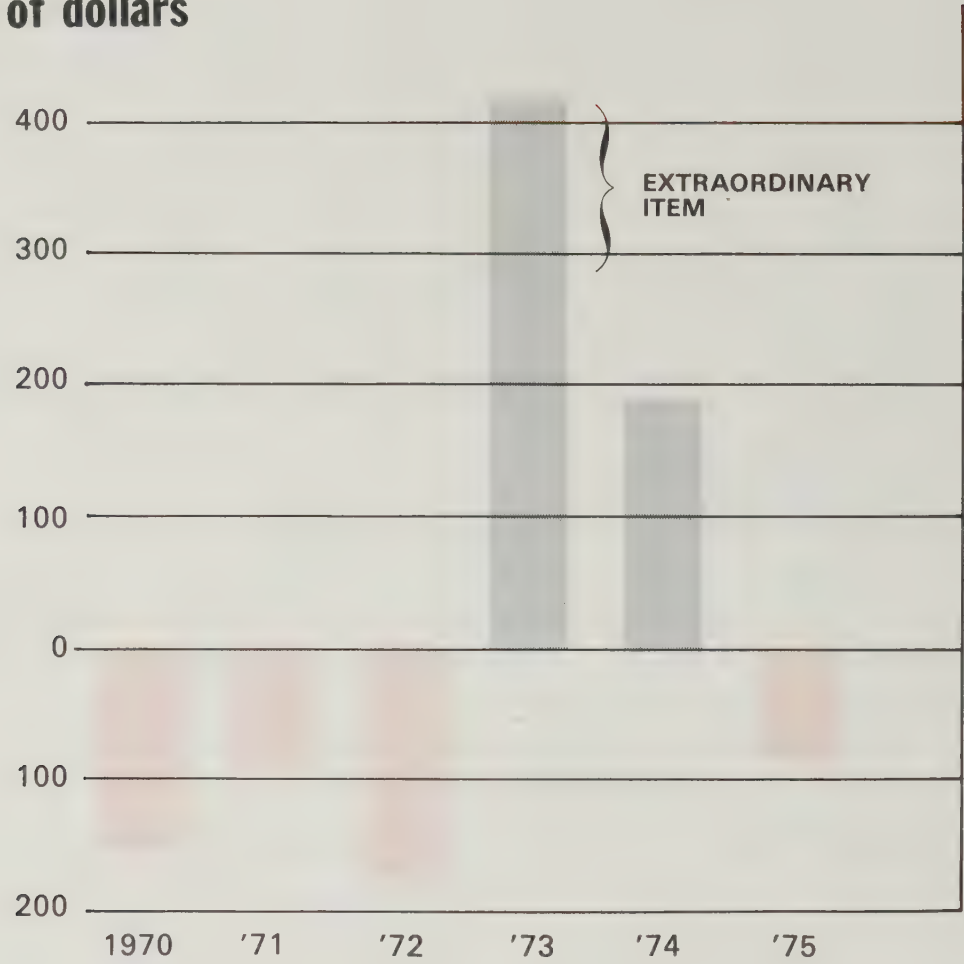
11. OTHER STATUTORY INFORMATION

	1975	1974
Direct remuneration of directors and senior officers (as defined by The Business Corporations Act)	\$143,700	\$135,700
Depreciation	291,873	300,439

Riverside Yarns Limited

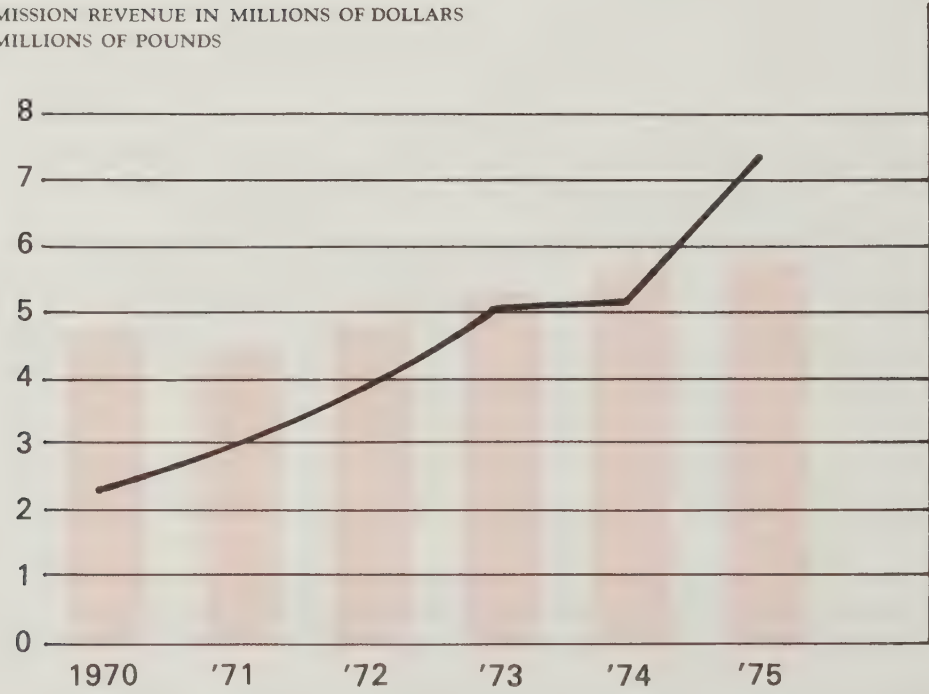
PROFIT and LOSS

Thousands of dollars



SALES

BAR - SALES AND COMMISSION REVENUE IN MILLIONS OF DOLLARS
LINE - SHIPMENTS IN MILLIONS OF POUNDS



Six Year
Financial Summary
See Overleaf

SIX YEAR FINANCIAL SUMMARY

INCOME AND EXPENSE

	1975	1974	1973	1972	1971	1970
Sales and commission revenue	\$5,790,697	\$5,758,377	\$5,302,418	\$4,774,234	\$4,448,320	\$4,719,889
Cost of goods sold excluding depreciation	5,020,834	4,665,239	4,033,058	4,075,656	3,845,751	4,184,664
Gross Profit excluding depreciation	769,863	1,093,138	1,269,360	698,578	602,569	535,225
Selling and administrative expenses excluding depreciation	546,868	412,484	405,449	502,661	403,692	448,218
Directors' fees	600	1,300	1,000	1,100	1,200	1,300
Interest on long-term debt	71,245	62,500	87,678	106,168	88,758	72,653
Financing expenses amortized	1,035	2,033	2,992	2,940	3,767	4,066
	619,748	478,317	497,119	612,869	497,417	526,237
Earnings before undemoted items	150,115	614,821	772,241	85,709	105,152	8,988
Profit (loss) on sale of fixed assets	—	—	3,399	9,125	3,729	(32,887)
	150,115	614,821	775,640	94,834	108,881	(23,899)
Depreciation	291,873	300,439	252,469	272,548	231,983	262,234
Earnings (loss) before income taxes	(141,758)	314,382	523,171	(177,714)	(123,102)	(286,133)
Income taxes						
Current (net of extraordinary item in 1973)	(86,154)	92,865	40,748	—	—	(38,959)
Deferred	32,348	34,452	65,100	—	(33,421)	(91,764)
	(53,806)	127,337	105,848	—	(33,421)	(130,723)
Net earnings (loss) for year	\$ (87,952)	\$ 187,045	\$ 417,323	\$ (177,714)	\$ (89,681)	\$ (155,410)

FINANCIAL AND OTHER INFORMATION

	1975	1974	1973	1972	1971	1970
Working capital	310,348	302,193	422,025	342,121	359,627	478,878
Working capital ratio	1.15:1	1.29:1	1.42:1	1.42:1	1.29:1	1.42:1
Long-term debt	4,020,600	224,880	424,520	650,960	764,200	514,600
Shareholders' equity	973,374	1,121,326	979,281	561,958	739,672	829,353
Number of shares outstanding — Class A	120,000	120,000	120,000	120,000	120,000	120,000
Common	170,000	170,000	170,000	170,000	170,000	170,000
Equity per share — Class A	4.60	5.11	4.55	2.82	3.14	3.15
Common	2.48	2.99	2.55	1.32	2.14	2.65
Net earnings (loss) per share — Common	(.87)	.75	2.10	(1.40)	(.88)	(1.27)
Dividends paid per share — Class A	.50	.375	—	—	—	—
Common	—	—	—	—	—	—
Dividend arrears per share — Class A	2.125	2.125	2.00	1.50	1.00	.50
Cash flow from operations	237,304	523,969	734,485	88,649	108,919	52,013
% of cash flow to shareholders' equity	24.4%	46.7%	75.0%	15.8%	14.7%	6.3%
Purchase of fixed assets	3,272,258	399,161	433,853	15,466	476,804	18,861
Fixed assets (net)	4,122,138	1,141,753	1,043,031	863,960	1,134,468	890,343

MEMORANDA

